

CITY OF HARLAN

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4 - 5
Management's Discussion and Analysis	6 - 11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Activities and Net Assets - Cash Basis	A 12 - 13
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 14 - 15
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statements of Activities and Net Assets	C 16
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 17 - 18
Notes to Financial Statements	19 - 27
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	28 - 30
Notes to Required Supplementary Information - Budgetary Reporting	31
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 32 - 36
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Other Funds	2 37 - 38
Schedule of Indebtedness	3 39
Bond and Note Maturities	4 40
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5 41
Schedule of Expenditures of Federal Awards	6 42
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	43 - 45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	46 - 48
Schedule of Findings and Questioned Costs	49 - 53

**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Gary Christiansen	Mayor	January, 2006
Michael Hansen	Mayor pro tem	January, 2006
Rand Petersen	Council Member	January, 2008
Rhonda Brown	Council Member	January, 2008
Dave Miller	Council Member	January, 2008
Keith Kaufman	Council Member	January, 2006
Orv Roecker	Council Member	January, 2006
(After January 2004)		
Gary Christiansen	Mayor	January, 2006
Michael Hansen	Mayor pro tem	January, 2006
Rand Petersen	Council Member	January, 2008
Rhonda Brown	Council Member	January, 2008
Dave Miller	Council Member	January, 2008
Keith Kaufman	Council Member	January, 2006
Orv Roecker	Council Member	January, 2006
Terry Cox	City Administrator	Appointed
Susan Lambert	City Clerk	Appointed
Marjorie Ahrenholtz	City Treasurer	Appointed
Joseph Lauterbach	City Attorney	Appointed

MUXFELDT ASSOCIATES, CPA, P.C.
2309 B CHATBURN AVE.
HARLAN, IA 51537

August 27, 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

As described in Note 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statements No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41 Budgetary comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my report dated August 27, 2004 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12, and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2003, 2002 and 2001 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Muxfeldt Associates, CPA, P.C.
Harlan, IA 51537

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

The City of Harlan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in connection with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances. The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds. Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year. Other Supplementary information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kind of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and the component unit (Harlan Municipal Utilities). These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for future spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds report business types activities. The City maintains two sewer funds for operations and future sewer projects. Also included with Enterprise Funds is the activity of Harlan Municipal Activities. All three are considered major funds of the City. The Internal Service Funds are used to accumulate and allocate costs internally among the City's various functions.

A reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased 21 percent from a year ago, decreasing from \$1.678 million to \$1.334 million.

Changes in Net Assets of Governmental Activities			
		Year ended June 30,	
		2004	2003
Receipts:			
Program receipts:			
Charges for services	\$	793,655	\$ 834,171
Operating grants, contributions and restricted interest		1,443,993	554,368
Capital grants, contributions and restricted interest		9,824	19,940
General receipts:			
Property tax		1,477,941	1,501,561
Tax increment financing		980,614	968,844
Road use tax		439,925	430,024
Unrestricted investment earnings		20,387	26,707
Bond proceeds		428,617	355,000
Miscellaneous		563,129	1,284,719
Sale of assets		31,396	-0-
Transfers, net		(395,934)	(299,250)
Total receipts		<u>5,793,547</u>	<u>5,676,084</u>
Disbursements:			
Public safety		715,816	1,050,352
Public works		832,249	866,013
Culture and recreation		604,038	610,556
Community and economic development		570,820	-0-
General government		410,590	434,188
Debt service		499,108	446,464
Capital projects		1,884,019	1,558,121
Nonprogram		621,473	532,950
Total disbursements		<u>6,138,113</u>	<u>5,498,644</u>
Increase (decrease) in cash		(344,566)	177,440
Net assets, beginning of year		<u>1,678,786</u>	<u>1,501,346</u>
Net assets, end of year	\$	<u>1,334,220</u>	\$ <u>1,678,786</u>

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

The City's total receipts for governmental activities increased by 2 percent or approximately \$117,500. The total cost of all programs and services increased by 12 percent or approximately \$639,500, with no new programs added this year. The significant increase was primarily the result of the construction of the Therkildsen Activity Center.

The cost of all governmental activities this year was \$6.138 million compared to \$5.499 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12 - 13, the amount taxpayers ultimately financed for these activities was only \$3.246 million because some of the cost was paid by those directly benefited from the programs (\$794,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,454,000).

Changes in Net Assets of Business Type Activities			
Year ended June 30,			
	2004		2003
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 655,556	\$	478,434
HMU Component unit	9,588,245		9,663,126
Operating grants, contributions, and restricted interest	79,469		4,200
Capital grants, contributions, and restricted interest	106,271		109,076
General receipts:			
Unrestricted interest	1,810		22,785
Bond proceeds	4,070,000		-0-
Transfers, net	395,934		299,250
Total receipts	<u>14,897,285</u>		<u>10,576,871</u>
Disbursements:			
Sewer	429,201		364,695
HMU Component unit	10,771,355		9,471,392
Total disbursements	<u>11,200,556</u>		<u>9,836,087</u>
Increase (decrease) in cash	3,696,729		740,784
Net assets, beginning of year	<u>6,740,002</u>		<u>5,999,218</u>
Net assets, end of year	\$ <u>10,436,731</u>	\$	<u>6,740,002</u>

Total business type activities receipts for the fiscal year were \$14.9 million compared to \$10.6 million last year. This significant increase was due primarily to the receipt of \$4,070,000 revenue bond proceeds by the Harlan Municipal Utilities. Total disbursements increased by 14 percent to a total of \$11.2 million.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Harlan completed the year, its governmental funds reported a combined fund balance of \$686,141, a decrease of approximately \$315,900 below last year's total of \$1,002,079. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$334,722 from the prior year to \$672,778. The majority of this increase related to \$284,000 community development block grant funds received at fiscal year end but passed through to Concerned, Inc. subsequent to fiscal year end.

The Industrial Park Fund cash balance decreased by \$219,743 to \$137,745 from the previous year. \$442,916 TIF revenue was transferred in from the Urban Renewal Fund. \$570,820 was expended for community and economic development from this fund.

The Activity Center Fund decreased by \$139,550 to a negative balance of \$95,934. The Activity Center was funded by CDBG funds, donations, note proceeds and operating transfers. \$1,217,339 was spent on the Activity Center for the fiscal year 2004.

The Urban Renewal Fund decreased by \$121,178 to \$30,901. Tax Increment Financing funds are receipted into this fund and transferred out to finance debt payment for the Downtown Project 1994 and other projects in urban renewal areas of the City,

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased by \$23,445 to \$8,261 and eliminated a deficit balance in the prior year.

The Sewer Equipment Replacement Fund cash balance increased by \$600,654 to \$1.608 million.

The Harlan Municipal Utilities cash balance increased by \$3.073 million to \$8.220 million due primarily to the receipt of \$4,070,000 in revenue bond proceeds.

BUDGETARY HIGHLIGHT

Over the course of the year, the City amended its budget once. The amendment was approved on May 18, 2004 and resulted in an increase to other financing sources for the component unit (HMU) of \$4,070,000, as discussed previously. Budget expenditures in various capital project and the enterprise funds were also increased. The City had sufficient cash balances to absorb these additional costs.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

DEBT ADMINISTRATION

Outstanding Debt at Year-End			
		2004	2003
General obligation bonds	\$	3,225,000	\$ 3,490,000
Anticipatory warrants		400,000	-0-
Total	\$	<u>3,625,000</u>	<u>\$ 3,490,000</u>

Debt increased as a result of issuing anticipatory warrants for construction of the Activity Center. The Downtown Project 1994 General Obligation Debt was refinanced in January 2004, which will result in considerable interest savings to the City.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,625,000 is significantly below its constitutional debt limit of \$12.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$17.4 million, a decrease of 14.6 % under the final 2004 budget. Budgeted disbursements are expected to decrease by \$2.35 million, a decrease of 12.9% under the final 2004 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$728,300 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have question about this report or need additional financial information, contact Susan Lambert, City Clerk, 711 Durant Street, Harlan, Iowa.

CITY OF HARLAN
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 715,816	\$ 95,928	\$ 33,322	\$ -0-
Public works	832,249	240,047	-0-	1,156
Cultures and recreation	604,038	165,244	701,309	8,668
Economic development	570,820	544	-0-	-0-
General government	410,590	285,310	342,194	-0-
Debt service	499,108	-0-	-0-	-0-
Capital projects	1,884,019	6,582	367,168	-0-
Nonprogram - contractual services	618,566	-0-	-0-	-0-
Total governmental activities	6,135,206	793,655	1,443,993	9,824
Business type activities:				
Sewer	432,108	655,556	-0-	-0-
HMU - Component unit	10,771,355	9,588,245	79,469	106,271
Total business type activities	11,203,463	10,243,801	79,469	106,271
Total	\$ 17,338,669	\$ 11,037,456	\$ 1,523,462	\$ 116,095
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Road use tax				
Unrestricted investment earnings				
Bond proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash balance				
Net assets, beginning of year				
Net assets, end of year				
Assets				
Cash				
Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total net assets				

See notes to financial statements.

	Net (Disbursements), Receipts and Changes in Net Assets		
	Governmental Activities	Business Type Activities	Total
Functions / Programs:			
Governmental activities:			
Public safety	\$ (586,566)	\$ -0-	\$ (586,566)
Public works	(591,046)	-0-	(591,046)
Cultures and recreation	271,183	-0-	271,183
Community and economic development	(570,276)	-0-	(570,276)
General government	216,914	-0-	216,914
Debt service	(499,108)	-0-	(499,108)
Capital projects	(1,510,269)	-0-	(1,510,269)
Nonprogram - contractual services	(618,566)	-0-	(618,566)
Total governmental activities	(3,887,734)	-0-	(3,887,734)
Business type activities:			
Sewer	(2,907)	226,355	223,448
HMU - Component unit	-0-	(997,370)	(997,370)
Total business type activities	(2,907)	(771,015)	(773,922)
Total	(3,890,641)	(771,015)	(4,661,656)
	1,183,152	-0-	1,183,152
	980,614	-0-	980,614
	294,789	-0-	294,789
	439,925	-0-	439,925
	20,387	1,810	22,197
	428,617	4,070,000	4,498,617
	563,129	-0-	563,129
	31,396	-0-	31,396
	(395,934)	395,934	-0-
	3,546,075	4,467,744	8,013,819
	(344,566)	3,696,729	3,352,163
	1,678,786	6,740,002	8,418,788
\$	<u>1,334,220</u>	<u>\$ 10,436,731</u>	<u>\$ 11,770,951</u>
\$	<u>1,334,220</u>	<u>\$ 10,436,731</u>	<u>\$ 11,770,951</u>
	52,166	-0-	52,166
	30,901	-0-	30,901
	2,382	-0-	2,382
	24,873	-0-	24,873
	1,223,898	10,436,731	11,660,629
\$	<u>1,334,220</u>	<u>\$ 10,436,731</u>	<u>\$ 11,770,951</u>

CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Capital Projects		
	General	Industrial Park	Activity Center
Receipts:			
Property tax	\$ 930,519	\$ -0-	\$ -0-
Tax increment financing collections	-0-	-0-	-0-
Other city tax	14,740	-0-	-0-
Licenses and permits	54,195	-0-	-0-
Use of money and property	76,917	741	-0-
Intergovernmental	647,298	-0-	224,847
Charges for services	370,175	-0-	1,770
Special assessments	2,900	-0-	-0-
Miscellaneous	48,163	544	426,172
Total receipts	<u>2,144,907</u>	<u>1,285</u>	<u>652,789</u>
Disbursements:			
Operating:			
Public safety	686,231	-0-	-0-
Public works	471,249	-0-	-0-
Culture and recreation	554,067	-0-	-0-
Community and economic development	-0-	570,820	-0-
General government	395,676	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	1,217,339
Total disbursements	<u>2,107,223</u>	<u>570,820</u>	<u>1,217,339</u>
Excess (deficiency) of receipts over (under) disbursements	37,684	(569,535)	(564,550)
Other financing sources (uses):			
Sale of capital assets	-0-	31,396	-0-
Operating transfers in	347,893	442,916	25,000
Operating transfers out	(50,855)	(124,520)	-0-
Bond and note proceeds	-0-	-0-	400,000
Total other financing sources (uses)	<u>297,038</u>	<u>349,792</u>	<u>425,000</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) other financing sources (uses)	334,722	(219,743)	(139,550)
Cash basis fund balance, beginning of year	<u>338,056</u>	<u>357,488</u>	<u>43,616</u>
Cash basis fund balance, end of year	\$ <u><u>672,778</u></u>	\$ <u><u>137,745</u></u>	\$ <u><u>(95,934)</u></u>
Cash Basis Assets			
Cash	\$ <u><u>672,778</u></u>	\$ <u><u>137,745</u></u>	\$ <u><u>(95,934)</u></u>
Cash Basis Fund Balances			
Reserved:			
Debt Service	-0-	-0-	-0-
Unreserved:			
General fund	672,778	-0-	-0-
Special revenue funds	-0-	137,745	-0-
Capital projects funds	-0-	-0-	(95,934)
Other funds	-0-	-0-	-0-
Total fund balance	\$ <u><u>672,778</u></u>	\$ <u><u>137,745</u></u>	\$ <u><u>(95,934)</u></u>

See notes to financial statements.

Special Revenue		
Urban Renewal	Other Nonmajor	Total
\$ -0-	\$ 531,051	\$ 1,461,570
980,614	-0-	980,614
-0-	1,631	16,371
-0-	-0-	54,195
-0-	867	78,525
-0-	795,143	1,667,288
-0-	-0-	371,945
-0-	4,635	7,535
-0-	22,653	497,532
980,614	1,355,980	5,135,575
-0-	1,915	688,146
-0-	361,000	832,249
-0-	19,410	573,477
-0-	-0-	570,820
-0-	-0-	395,676
-0-	499,108	499,108
-0-	657,138	1,874,477
-0-	1,538,571	5,433,953
980,614	(182,591)	(298,378)
-0-	-0-	31,396
-0-	350,478	1,166,287
(1,101,792)	(366,693)	(1,643,860)
-0-	28,617	428,617
(1,101,792)	12,402	(17,560)
(121,178))	(170,189)	(315,938)
152,079	110,840	1,002,079
\$ 30,901	\$ (59,349)	\$ 686,141
\$ 30,901	\$ (59,349)	\$ 686,141
-0-	2,382	2,382
-0-	-0-	672,778
30,901	77,039	245,685
-0-	(173,265)	(269,199)
-0-	34,495	34,495
\$ 30,901	\$ (59,349)	\$ 686,141

**RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Total governmental funds cash balances (page 15)	\$	686,141
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and to charge the costs of equipment purchases to individual funds. The Internal Service Funds are included in governmental activities in the Statement of Net Assets.

648,079

Cash basis net assets of governmental activities (page 13)	\$	<u><u>1,334,220</u></u>
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Net change in cash balances (page 15)	\$	(315,938)
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and to charge the costs of equipment purchases to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

(28,628)

Change in cash balance of governmental activities (page 13)	\$	<u><u>(344,566)</u></u>
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CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 750	\$ -0-	\$ 79,469	\$ 80,219
Charges for services	655,556	-0-	9,588,245	10,243,801
Miscellaneous	-0-	-0-	106,271	106,271
Total receipts	<u>656,306</u>	<u>-0-</u>	<u>9,773,985</u>	<u>10,430,291</u>
Operating disbursements:				
Public safety	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Business type activities	419,861	9,340	10,771,355	11,200,556
Total disbursements	<u>419,861</u>	<u>9,340</u>	<u>10,771,355</u>	<u>11,200,556</u>
Operating income	236,445	(9,340)	(997,370)	(770,265)
Nonoperating receipts (disbursements):				
Interest on investments	-0-	1,060	-0-	1,060
Bond proceeds	-0-	-0-	4,070,000	4,070,000
Reimbursements	-0-	-0-	-0-	-0-
Contractual services	-0-	-0-	-0-	-0-
Transfer in	-0-	608,934	-0-	608,934
Transfer out	(213,000)	-0-	-0-	(213,000)
Total nonoperating receipts (disbursements)	<u>(213,000)</u>	<u>609,994</u>	<u>4,070,000</u>	<u>4,466,994</u>
Excess (deficiency) of receipts over (under) disbursements	23,445	600,654	3,072,630	3,696,729
Cash basis fund balance, beginning of year	<u>(15,184)</u>	<u>1,608,009</u>	<u>5,147,177</u>	<u>6,740,002</u>
Cash basis fund balances, end of year	\$ <u>8,261</u>	\$ <u>2,208,663</u>	\$ <u>8,219,807</u>	\$ <u>10,436,731</u>
Cash Basis Assets				
Cash	\$ <u>8,262</u>	\$ <u>2,208,663</u>	\$ <u>8,219,807</u>	\$ <u>8,219,807</u>
Cash Basis Fund Balances				
Unreserved				
Total fund balance	\$ <u>8,261</u>	\$ <u>2,208,663</u>	<u>8,219,807</u>	\$ <u>10,463,731</u>

See notes to financial statements.

	Internal Service		
	Equipment Revolving Fund	Group Insurance Trust	Total
Operating receipts:			
Use of money and property	\$ -0-	\$ -0-	\$ -0-
Charges for services	-0-	-0-	-0-
Miscellaneous	30,412	-0-	30,412
Total receipts	<u>30,412</u>	<u>-0-</u>	<u>30,412</u>
Operating disbursements:			
Public safety	27,670	-0-	27,670
Culture and recreation	40,103	-0-	40,103
General government	14,914	-0-	14,914
Business type activities	2,907	-0-	2,907
Total disbursements	<u>85,594</u>	<u>-0-</u>	<u>85,594</u>
Operating income	(55,182)	-0-	(55,182)
Nonoperating receipts (disbursements):			
Interest on investments	-0-	938	938
Bond proceeds	-0-	-0-	-0-
Reimbursements	-0-	562,543	562,543
Contractual services	-0-	(618,566)	(618,566)
Transfer in	88,855	-0-	88,855
Transfer out	(7,216)	-0-	(7,216)
Total nonoperating receipts (disbursements)	<u>81,639</u>	<u>(55,085)</u>	<u>26,554</u>
Excess (deficiency) of receipts over (under) disbursements	26,457	(55,085)	(28,628)
Cash basis fund balance, beginning of year	<u>247,133</u>	<u>429,574</u>	<u>676,707</u>
Cash basis fund balances, end of year	\$ <u>273,590</u>	\$ <u>374,489</u>	\$ <u>648,079</u>
Cash Basis Assets			
Cash	\$ <u>273,590</u>	\$ <u>374,489</u>	\$ <u>648,079</u>
Cash Basis Fund Balances			
Unreserved:			
Total fund balance	\$ <u>273,590</u>	\$ <u>374,489</u>	\$ <u>648,079</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the state of Iowa located in Shelby County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (Cont'd)

- B. Government-wide Financial Statements - The Statement of Activities and Net Assets report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary assets and liabilities with the difference reported as net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Fund is used to account for tax increment financing funds.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation (Cont'd)

Capital Projects:

The Activity Center Fund represents the activity of the Therkildsen Activity Center construction project.

The Industrial Park Fund accounts for community and economic development funds, mostly tax increment-financing funds transferred in.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The City reports former expendable trust funds (pre GASB-34) as other funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, account payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2004, disbursements exceed amounts budgeted in the community and economic development and debt service functions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (Cont'd)

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2002, to compute the amounts, which became liens on property on July 1, 2003. These taxes were due and payable in two installments on September 30, 2003 and March 31, 2004, at the Shelby County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county

(2) Deposits

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

For the year ended June 30, 2004, \$3,551,144 was on deposit at local banks as demand deposits and certificates of deposit.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$80,258, \$75,659, and \$71,680, respectively, equal to the required contributions for each year.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation	
	Bonds	
	Principal	Interest
2005	\$ 380,000	\$ 112,321
2006	410,000	100,496
2007	400,000	87,248
2008	400,000	75,823
2009	295,000	63,253
2010	290,000	53,205
2011	295,000	42,705
2012	320,000	31,465
2013	325,000	18,905
2014	110,000	5,610
	<u>\$ 3,225,000</u>	<u>\$ 591,031</u>

The City has a general obligation debt limit of approximately \$12,633,453, which was not exceeded during the year ended June 30, 2004.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special Revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 48,052
Compensatory time	50,487
Floating holiday	4,462
	<u>\$ 103,001</u>

This liability has been computed based on rates of pay as of June 30, 2004.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(6) Anticipatory Warrants

Anticipatory warrants are warrants, which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The City issued \$400,000 in anticipatory warrants for Activity Center construction at 3.11% interest per annum. As of June 30, 2004, no anticipatory warrants had been redeemed.

(7) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to maximum of \$25,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$24,301 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Fund's claims liability amount is shown below.

Unpaid claims, beginning of year	\$	28,336
Incurred claims		447,402
Payments		(451,437)
Unpaid claims, end of year	\$	<u>24,301</u>

(8) Deficit Fund Balances

As of June 30, 2004, the following funds had deficit balances:

<u>Fund</u>		<u>Deficit</u>
Capital Projects:		
Sanitary Sewer	\$	257,312
Activity Center		95,934
Airport Improvement		<u>1,907</u>
Total	\$	<u>355,153</u>

The deficit balances were a result of project costs incurred prior to availability of funds. Deficits will be eliminated upon completion of the projects.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(9) Risk Management

The City of Harlan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Tax Increment Financing

For the year ended June 30, 2004, the City collected \$980,614 in tax increment financing (TIF) funds. The TIF receipts are recorded into the urban renewal fund then transferred as follows:

Transfer to:	
Debt Service Fund	\$ 180,219
General Fund	110,000
Sewer Equipment Replacement Fund	368,657
Industrial Park Fund	442,916
Total transfers	\$ <u>1,101,792</u>

The City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. For the year ended June 30, 2004, the City remitted \$61,797 to the county and \$118,964 to the school district from the Industrial Park Fund.

Subsequent to fiscal year end, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's TIF plan.

The City will consult with legal counsel concerning the urban renewal plan, the 28E Agreements with Shelby County and the Harlan Community School District, and its transfers of TIF funds to the general and sewer equipment replacement funds.

(11) Related Party Transactions

Business transactions between the City and City officials totaled \$1,324 for the year ended June 30, 2004.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(12) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Community and Economic Development and Debt Service functions exceeded the amounts budgeted.

(13) Subsequent Events

As discussed in Note 10, the City's 28E Agreements with Shelby County and the Harlan Community School District were reviewed by legal counsel subsequent to June 30, 2004. Amendments were adopted in December 2004 that create joint boards to provide oversight and authorization for all proposed tax increment financing (TIF) expenditures for the upcoming fiscal year and to review all TIF related expenditures of the prior fiscal year. Both entities are to expend TIF fund in accordance with the City's Urban Renewal Plan.

Subsequent to June 30, 2004, the City disbursed \$284,000 of Community Development Block Grant fund to Concerned, Inc. The funds were readily available at June 30, 2004 for disbursement but held into the new fiscal year for budgetary reasons. The \$284,000 expenditure is listed on the Schedule of Expenditures of Federal Awards.

(14) Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets has been restated to include the Internal Service Funds and Expendable Fiduciary Funds.

	Governmental Activities	Business-Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 967,811	\$ 6,740,002
Internal Service Funds	676,707	-0-
Expendable Fiduciary Funds	34,268	-0-
Cash basis net assets June 1, 2003, as restated	\$ <u>1,678,786</u>	\$ <u>6,740,002</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,461,570	\$ -0-
Other city tax	16,371	-0-
Tax increment financing	980,614	-0-
Licenses and permits	54,195	-0-
Use of money and permits	79,463	81,279
Intergovernmental	1,667,288	-0-
Charges for services	371,945	10,243,801
Special assessments	7,535	-0-
Miscellaneous	1,090,487	106,271
Total receipts	<u>5,729,468</u>	<u>10,431,351</u>
Disbursements:		
Public safety	715,816	-0-
Public works	832,249	-0-
Culture and recreation	604,038	-0-
Community and economic development	570,820	-0-
General government	410,590	-0-
Debt service	499,108	-0-
Capital projects	1,884,019	-0-
Business type	2,907	11,200,556
Nonprogram	618,566	-0-
Total disbursements	<u>6,138,113</u>	<u>11,200,556</u>
Excess (deficiency) of receipts over (under) disbursements	(408,645)	(769,205)
Other financing sources, net	<u>64,079</u>	<u>4,465,934</u>
Excess (deficiency) of receipts and other financing sources	(344,566)	3,696,729
Balance beginning of year	<u>1,678,786</u>	<u>6,740,002</u>
Balance end of year	\$ <u><u>1,334,220</u></u>	\$ <u><u>10,436,731</u></u>

See Accompanying Independent Auditor's Report

		Budgeted Amounts		Final to
Total		Original	Final	Total Variance
\$	1,461,570	\$ 1,430,365	\$ 1,430,365	\$ 31,205
	16,371	20,684	37,684	(21,313)
	980,614	933,619	949,713	30,901
	54,195	20,300	21,000	33,195
	160,742	169,670	203,513	(42,771)
	1,667,288	867,408	1,351,103	316,185
	10,615,746	11,076,976	11,170,934	(555,188)
	7,535	3,400	7,536	(1)
	1,196,758	330,840	395,321	801,437
	16,160,819	14,853,262	15,567,169	593,650
	715,816	720,526	746,792	30,976
	832,249	863,876	890,447	58,198
	604,038	639,202	637,452	33,414
	570,820	-0-	102,133	(468,687)
	410,590	367,653	411,153	563
	499,108	474,234	494,329	(4,779)
	1,884,019	663,502	2,493,838	609,819
	11,203,463	10,574,893	12,421,893	1,218,430
	618,566	-0-	-0-	(618,566)
	17,338,669	14,303,886	18,198,037	859,368
	(1,177,850)	549,376	(2,630,868)	1,453,018
	4,530,013	-0-	4,820,095	(290,082)
	3,352,163	549,376	2,189,227	1,162,936
	8,418,788	8,418,788	8,418,788	-0-
\$	11,770,951	\$ 8,968,164	\$ 10,608,015	\$ 1,162,936

CITY OF HARLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2004

In accordance with the code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, fiduciary funds, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund type level. During the year, a budget amendment increased budgeted disbursements by \$3,894,151. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceed the amounts budgeted in the Community and Economic Development and Debt Service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2004

	Special Revenue				Capital Projects			
	Road Use Tax	Employee Retirement	Housing Rehab	Debt Service	Airport	Street Overlay	Sewer Plant Flood	Sanitary Sewer
Receipts:								
Property tax	\$ -0-	\$ 237,056	\$ -0-	\$ 293,995	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	837	-0-	794	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	157	-0-	-0-	-0-	-0-
Intergovernmental	439,925	-0-	131,495	-0-	156,462	-0-	62,587	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	1,156	-0-	-0-	94
Total receipts	439,925	237,893	131,495	294,946	157,618	-0-	62,587	94
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Public works	361,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	499,108	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	108,753	-0-	179,610	101,501	-0-	257,406
Total disbursements	361,000	-0-	108,753	499,108	179,610	101,501	-0-	257,406
Excess (deficiency) of receipts Over (under) disbursements	78,925	237,893	22,742	(204,162)	(21,992)	(101,501)	62,587	(257,312)

See accompanying independent auditor's report.

SCHEDULE 1

Capital Projects							
Library Bldg	Swimming Pool	Knudsen	Down Town	Skate Park	Other Projects	Other Funds	Total
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 531,051
-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,631
-0-	-0-	-0-	-0-	-0-	-0-	710	867
-0-	-0-	-0-	-0-	-0-	-0-	4,674	795,143
-0-	-0-	2,791	1,844	-0-	-0-	-0-	4,635
7,600	250	-0-	-0-	2,836	500	10,217	22,653
7,600	250	2,791	1,844	2,836	500	15,601	1,355,980
-0-	-0-	-0-	-0-	-0-	-0-	1,915	1,915
-0-	-0-	-0-	-0-	-0-	-0-	-0-	361,000
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
2,767	-0-	-0-	-0-	1,116	2,068	13,459	19,410
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	499,108
-0-	9,868	-0-	-0-	-0-	-0-	-0-	657,138
2,767	9,868	-0-	-0-	1,116	2,068	15,374	1,538,571
4,833	(9,618)	2,791	1,844	1,720	(1,568)	227	(182,591)

	Special Revenue				Capital Projects			
	Road Use Tax	Employee Retirement	Housing Rehab	Debt Service	Airport	Street Overlay	Sewer Plant Flood	Sanitary Sewer
Excess (deficiency) of receipts Over (under) disbursements	78,925	237,893	22,742	(204,162)	(21,992)	(101,501)	62,587	(257,312)
Other financing sources (uses):								
Transfer in	-0-	-0-	25,000	180,219	43,758	101,501	-0-	-0-
Transfer out	(88,523)	(237,893)	-0-	-0-	-0-	-0-	(40,277)	-0-
Bond Proceeds	-0-	-0-	-0-	28,617	-0-	-0-	-0-	-0-
	<u>(88,523)</u>	<u>(237,893)</u>	<u>25,000</u>	<u>208,836</u>	<u>43,758</u>	<u>101,501</u>	<u>(40,277)</u>	<u>-0-</u>
Net change in cash balance	(9,598)	-0-	47,742	4,674	21,766	-0-	22,310	(257,312)
Cash balances beginning of year	<u>61,764</u>	<u>-0-</u>	<u>(22,869)</u>	<u>(2,292)</u>	<u>(23,673)</u>	<u>-0-</u>	<u>(22,310)</u>	<u>-0-</u>
Cash balances end of year	\$ <u>52,166</u>	\$ <u>-0-</u>	\$ <u>24,873</u>	\$ <u>2,382</u>	\$ <u>(1,907)</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>(257,312)</u>
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 52,166	\$ -0-	\$ 24,873	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Debt service funds	-0-	-0-	-0-	2,382	-0-	-0-	-0-	-0-
Capital projects funds	-0-	-0-	-0-	-0-	(1,907)	-0-	-0-	(257,312)
Fiduciary funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>52,166</u>	\$ <u>-0-</u>	\$ <u>24,873</u>	\$ <u>2,382</u>	\$ <u>(1,907)</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>(257,312)</u>

See accompanying independent auditor's report.

SCHEDULE 1 (Cont'd)

Capital Projects							
Library Bldg	Swimming Pool	Knudsen	Down Town	Skate Park	Other Projects	Other Funds	Total
4,833	(9,618)	2,791	1,844	1,720	(1,568)	227	(182,591)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	350,478
-0-	-0-	-0-	-0-	-0-	-0-	-0-	(366,693)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	28,617
-0-	-0-	-0-	-0-	-0-	-0-	-0-	12,402
4,833	(9,618)	2,791	1,844	1,720	(1,568)	227	(170,189)
33	55,499	10,289	11,032	5,161	3,938	34,268	110,840
\$ 4,866	\$ 45,881	\$ 13,080	\$ 12,876	\$ 6,881	\$ 2,370	\$ 34,495	\$ (59,349)
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 77,039
-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,382
4,866	45,881	13,080	12,876	6,881	2,370	-0-	(173,265)
-0-	-0-	-0-	-0-	-0-	-0-	34,495	34,495
\$ 4,866	\$ 45,881	\$ 13,080	\$ 12,876	\$ 6,881	\$ 2,370	\$ 34,495	\$ (59,349)

CITY OF HARLAN

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -
OTHER FUNDS**

YEAR ENDED JUNE 30, 2004

	Library Trust	Beebe Trust	Police Trust	Hansen Trust	Play Ground	Allen Trust	Total
Receipts:							
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	710	-0-	-0-	-0-	-0-	-0-	710
Intergovernmental	4,674	-0-	-0-	-0-	-0-	-0-	4,674
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	7,212	1,050	1,855	100	-0-	-0-	10,217
Total receipts	<u>12,596</u>	<u>1,050</u>	<u>1,855</u>	<u>100</u>	<u>-0-</u>	<u>-0-</u>	<u>15,601</u>
Disbursements:							
Operating:							
Public safety	-0-	-0-	252	1,120	-0-	543	1,915
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	10,977	1,122	-0-	-0-	1,360	-0-	13,459
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	<u>10,977</u>	<u>1,122</u>	<u>252</u>	<u>1,120</u>	<u>1,360</u>	<u>543</u>	<u>15,374</u>

See accompanying independent auditor's report.

SCHEDULE 2

	<u>Library Trust</u>	<u>Beebe Trust</u>	<u>Police Trust</u>	<u>Hansen Trust</u>	<u>Play Ground</u>	<u>Allen Trust</u>	<u>Total</u>
Excess (deficiency) of receipts Over (under) disbursements	1,619	(72)	1,603	(1,020)	(1,360)	(543)	227
Cash balances beginning of year	<u>11,033</u>	<u>8,326</u>	<u>74</u>	<u>5,308</u>	<u>7,111</u>	<u>2,416</u>	<u>34,268</u>
Cash balances end of year	<u>\$ 12,652</u>	<u>\$ 8,254</u>	<u>\$ 1,677</u>	<u>\$ 4,288</u>	<u>\$ 5,751</u>	<u>\$ 1,873</u>	<u>\$ 34,495</u>
Cash Basis Fund Balances							
Other funds	<u>12,652</u>	<u>8,254</u>	<u>1,677</u>	<u>4,288</u>	<u>5,751</u>	<u>1,873</u>	<u>34,495</u>
Total bash basis fund balances	<u>\$ 12,652</u>	<u>\$ 8,254</u>	<u>\$ 1,677</u>	<u>\$ 4,288</u>	<u>\$ 5,751</u>	<u>\$ 1,873</u>	<u>\$ 34,495</u>

**CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2004**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due</u>
<u>Obligation</u>									
General Obligation Bonds:									
Downtown Project	Feb. 1, 1994	3.30 - 5.15%	\$ 2,175,000	\$ 1,800,000	\$ -0-	\$ 1,800,000	\$ -0-	\$ 44,763	\$ -0-
Refinancing Capital Note	Jan. 1, 2004	1.50 - 3.6%	1,770,000	-0-	1,770,000	-0-	1,770,000	119,763	4,019
Swimming Pool Refunding	Dec. 1, 1996	4.25 - 4.90%	695,000	300,000	-0-	100,000	200,000	14,450	808
Fire Truck	Dec. 16, 2002	1.85 - 3.0%	355,000	355,000	-0-	50,000	305,000	8,942	668
Combined Issue	Jul. 20, 1999	4.10 - 5.10%	1,355,000	1,035,000	-0-	85,000	950,000	50,115	3,865
				<u>\$ 3,490,000</u>	<u>\$ 1,770,000</u>	<u>\$ 2,035,000</u>	<u>\$ 3,225,000</u>	<u>\$ 238,033</u>	<u>\$ 9,360</u>
Anticipatory warrants:									
Activity Center	Dec. 19, 2003	3.11%	\$ 400,000	<u>\$ -0-</u>	<u>\$ 400,000</u>	<u>\$ -0-</u>	<u>\$ 400,000</u>	<u>\$ -0-</u>	<u>\$ 6,612</u>

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2004**

General Obligation Bonds

Year Ending June 30,	Refinancing Capital Loan Note <u>Issued Jan. 1, 2004</u>		Swimming Pool Refunding <u>Issued Dec. 1, 1996</u>		Fire Truck <u>Issued Dec. 16, 2002</u>		Combined Issue <u>Issued July 1, 1999</u>		Total
	Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2005	1.50%	\$ 145,000	4.80%	\$ 100,000	2.05%	\$ 50,000	4.40%	\$ 85,000	\$ 380,000
2006	1.85%	170,000	4.90%	100,000	2.35%	55,000	4.50%	85,000	410,000
2007	2.20%	215,000	-0-	-0-	2.70%	100,000	4.60%	85,000	400,000
2008	2.50%	210,000	-0-	-0-	3.00%	100,000	4.70%	90,000	400,000
2009	2.75%	205,000	-0-	-0-	-0-	-0-	4.80%	90,000	295,000
2010	3.00%	200,000	-0-	-0-	-0-	-0-	4.90%	90,000	290,000
2011	3.20%	195,000	-0-	-0-	-0-	-0-	5.00%	100,000	295,000
2012	3.40%	215,000	-0-	-0-	-0-	-0-	5.00%	105,000	320,000
2013	3.60%	215,000	-0-	-0-	-0-	-0-	5.05%	110,000	325,000
2014	-0-	-0-	-0-	-0-	-0-	-0-	5.10%	110,000	110,000
		<u>\$ 1,770,000</u>		<u>\$ 200,000</u>		<u>\$ 305,000</u>		<u>\$ 950,000</u>	<u>\$ 3,225,000</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

Receipts:

Property tax	\$ 1,461,570
Tax increment financing collections	980,614
Other city tax	16,371
Licenses and permits	54,195
Use of money and property	78,525
Intergovernmental	1,667,288
Charges for service	371,945
Special assessments	7,535
Miscellaneous	<u>497,532</u>
Total	\$ <u>5,135,575</u>

Disbursements:

Operating:	
Public safety	\$ 688,146
Public works	832,249
Culture and recreation	573,477
Community and economic development	570,820
General government	395,676
Debt service	499,108
Capital projects	<u>1,874,477</u>
Total	\$ <u>5,433,953</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Grantor/Program	CFDA Number	Agency Pass-thru Number	Program Expenditures
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant States Program	14.228	00-CF-017	\$ 112,982
Community Development Block Grant States Program	14.228	03-CF-042	335,014
Community Development Block Grant Home Investment Partnership Program	14.239	01-HM-116-25	131,495
Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0042-03	156,462
Federal Emergency Management Agency:			
Iowa Emergency Management Division:	83.548	0996-83-01	7,111
Hazard Mitigation Grant Project		1230-83-02	176
Total			\$ <u>743,240</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Harlan and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

MUXFELDT ASSOCIATES, CPA, P.C.
2309 B CHATBURN AVE.
HARLAN, IA 51537

August 27, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Harlan, Iowa as of and for the year ended June 30, 2004 and have issued my report thereon dated August 27, 2004. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for Item 04-IV-C.

Continued . . .

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Harlan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe none is a material weakness. Prior year reportable conditions have been resolved except for item 04-II-B.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Harlan during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Muxfeldt Associates, CPA, P.C.
Harlan, IA 51537

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE**

MUXFELDT ASSOCIATES, CPA, P.C.
2309 B CHATBURN AVE.
HARLAN, IA 51537

August 27, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE

To the Honorable Mayor and
Members of the City Council

Compliance

I have audited the compliance of the City of Harlan, Iowa, with the types of compliance requirements described in U.S. Office Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Harlan's major federal program is identified in part I of the accompanying Schedule Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Harlan's management. My responsibility is to express an opinion on the City of Harlan's compliance based on my audit.

I conducted by audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harlan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Harlan's compliance with those requirements.

In my opinion, the City of Harlan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. The results of my auditing procedures disclosed no instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Continued. . .

Internal Control Over Compliance

The management of the City of Harlan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City of Harlan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Muxfeldt Associates, CPA, P.C.
Harlan, IA 51537

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable condition in internal control over the major program was disclosed by the audit of the financial statement.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Harlan did not qualify and a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

04-II-B Unsubstantiated Reimbursements

Comment - I noted instances in which documentation was not available to substantiate training, travel and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITION:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

04-IV-A Official Depositories

A resolution naming official depositories has been adopted by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

4-IV-B Certified Budget - Disbursements in the Community and Economic Development and Debt Service functions for the year ended June 30, 2004, exceeded the amounts budgeted.

Recommendation - The budget should have been amended in sufficient amounts at the functional level in accordance with Chapter 384.18 of the Code of Iowa. total City disbursements did not exceed total budgeted amounts.

Response - The budget will be amended accordingly in the future.

Conclusion - Response accepted.

04-IV-C Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

04-IV-D Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Statutory Reporting (Cont'd.)

04-IV-E Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Mike Hansen, Council Member, Owner Hansen's CADD Service	Supplies	25
Roger Sorensen, P & Z Board, Owner Sorensen Ford	Equipment	1,248
Dave Miller, Council Member, Owner of Harlan Flower Shop	Supplies	<u>52</u>
Total		\$ <u><u>1,325</u></u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member and HMU Board Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transactions with the Airport Commissioner and Planning and Zoning Board Member do not appear to represent conflicts of interest since they were entered into through competitive bidding.

04-IV-F Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-IV-G Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Statutory Reporting (Cont'd.)

04-IV-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

04-IV-I Revenue Notes

The City has no revenue debt at June 30, 2004.

04-IV-J Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

04-IV-K Financial Condition - The following Funds had deficit balances as of June 30, 2004:

Fund		<u>Deficit</u>
Capital Projects:		
Sanitary Sewer	\$	257,312
Activity Center		95,934
Airport Improvement		<u>1,907</u>
Total	\$	<u><u>355,153</u></u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon completion of the projects.

Conclusion - Response accepted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Part III: Other Findings Related to Statutory Reporting (Cont'd.)

04-IV-L Tax Increment Financing Revenues (TIF)

Chapter 403 of the Code of Iowa provides that TIF funds may only be spent in accordance with the original purpose of the TIF plan within the designated urban renewal area. \$110,000 of TIF funds was transferred to the general fund as a 30% payback. Additionally, the City has 28E agreements with the Harlan Community School District and Shelby County in which the City agrees to remit TIF funds based on formula. For the year ended June 30, 2004, the City paid the School District \$118,964 and Shelby County \$61,797 in TIF funds.

Recommendation - TIF revenue may not be used to supplement the General Fund. TIF funds may only be spent in accordance with the original purpose of the TIF plan within the designated urban renewal area.

The City should consult with the County and the School District and legal counsel to determine whether the 28E agreements and payback to the general fund, including the specified use of the TIF revenue, is in compliance with the requirements of Chapter 403 of the Code of Iowa.

Response - The City will also consult with legal counsel concerning the 28E agreements and the transfer of TIF funds to the General Fund.

Conclusion - Response accepted.

CITY OF HARLAN

HARLAN, IOWA 51537

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Harlan, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's discussion and Analysis of the City's financial statements.

The City's receipts totaled \$6,846,847 for the year ended June 30, 2004 a 14.6 percent increase from 2003. The receipts included \$1,477,941 in property tax, \$980,614 from tax increment financing, \$1,449,211 from charges for services, \$1,443,993 from operating grants, contributions and restricted interest, \$9,824 from capital grants, contributions and restricted interest, \$22,917 from unrestricted investment earnings and \$1,462,347 from other general receipts.

Disbursements for the year totaled \$6,138,113, a 12 percent increase from 2003, which included \$1,884,019 for capital projects, \$832,249 for public works, and \$715,816 for public safety. Also, disbursements for business type activities totaled \$429,201.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.